

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

HB 47 – SB 289

March 24, 2014

SUMMARY OF ORIGINAL BILL: Reduces the number of required years, from two to one, which an individual must reside in this state prior to being issued a retailers' license to sell alcohol. Reduces the number of consecutive years, from 10 to 5, which an individual must have resided in this state, at any given period of time, prior to being issued a retailers' license to sell alcohol.

FISCAL IMPACT OF ORIGINAL BILL:

Increase State Revenue – \$300/One-Time/ABC Fund
Exceeds \$900/Recurring/ABC Fund

SUMMARY OF AMENDMENT (015248): Deletes all language after the enacting clause. Increases, from 5 percent or less to 8 percent or less, the alcoholic content by weight of beer for the purposes of taxation of beer. Updates relevant portions of Tenn. Code Ann. to reflect the definition change.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

Increase State Revenue - \$4,200/Highway Fund
\$1,300/Department of Revenue

Decrease State Revenue - Net Impact – \$75,100/General Fund
\$35,200/ABC Fund

Increase Local Revenue – Net Impact - \$227,200

Assumptions for the bill as amended:

- Within the language of this fiscal note, high alcohol content beer refers to beer with alcohol content between 5 percent and 8 percent.
- Utilizing information from the Department of Revenue, the fiscal impact has been determined using numerous and complex calculations based upon multiple tax rates, apportionment rates, elasticity rates, and growth rates. These calculations have been

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omitted from this fiscal note for the purpose of brevity. However, the calculations used for determining the following fiscal impact are on file with Fiscal Review Committee staff and can be provided upon request.

- Currently beer with alcohol content between five percent and seven percent is taxed at a rate of \$1.10 per gallon and beer with an alcohol content exceeding seven percent is taxed at a rate of \$1.21 per gallon. Based upon the provisions of the bill as amended, high alcohol content beer would not be subject to the tax. This tax is apportioned approximately 82.5 percent to the state and 17.5 percent to local governments. As a result, the recurring decrease in state revenue to the General Fund is estimated to be \$178,370 and the recurring decrease in local revenue is estimated to be \$37,836.
- According to current law, high alcohol content beer is subject to a \$0.15 per case alcoholic beverage enforcement tax. According to the provisions of this bill as amended, high alcohol content beer will not be subject to the enforcement tax. Assuming five percent of enforcement tax collections are attributable to such beer, and based upon projections by the Department of Revenue, it is assumed that there will be a recurring decrease in state revenue to the ABC Fund of \$10,175.
- The wholesale tax on beer is \$35.60 per 31 gallon barrel. Provisions of this bill as amended would subject high alcohol content beer to this tax. The tax is apportioned \$34.51 per barrel to local governments, \$0.17 to the Department of Revenue, and \$0.92 to the wholesaler. It is estimated that there will be a recurring increase in revenue to the Department of Revenue of \$1,303 and a recurring increase in local revenue of \$264,554.
- The barrelage tax on beer is \$4.29 per 31 gallon barrel. Provisions of this bill as amended would subject high alcohol content beer to this tax. The tax is apportioned 67.1 percent or \$2.88 ($67.1 \times \4.29) to the General Fund, 12.8 percent or \$0.55 ($12.8 \times \4.29) to the Highway Fund and 20.1 percent or \$0.86 ($20.1 \times \4.29) percent to local governments. It is estimated that imposing this tax on high alcohol content beer will result in a recurring increase in state revenue to the General Fund of \$22,067; a recurring increase in state revenue to the Highway Fund of \$4,200; and a recurring increase in local revenue of \$6,600.
- Under current law, for the purpose of on-premises consumption, beer with alcohol content over five percent is subject to the liquor-by-the-drink tax. Under the provisions of this bill as amended such beer would be exempt from this tax.
- Assuming that high alcohol content beer accounts of one-half of a percent (0.5%) of total liquor-by-the-drink tax collections, it is estimated that there would be a recurring decrease in state revenue to the General Fund of \$61,614 and a recurring decrease in local revenue of \$64,395.
- High alcohol content beer could be sold in grocery and convenience stores. Currently, beer with alcohol content over five percent must be sold in a liquor store. This will result in an increase in the amount of high alcohol content beer sold statewide, resulting in an increase in state and local government sales tax collections.
- Based upon information provided by the Department of Revenue, state sales tax collections are estimated to increase \$142,860 annually and local revenues are estimated to increase \$58,297 annually.
- Currently high alcohol content beer brewers are required to obtain a distiller's license at an annual cost of \$1,000. The ABC estimates a decrease of approximately 25 licenses per year, resulting in an annual decrease in revenue to the ABC Fund of \$25,000.

- The net recurring decrease in state revenue to the General Fund is estimated to be \$75,057 (\$178,370 - \$22,067 + \$61,614 - \$142,860).
- The total recurring decrease in state revenue to the ABC fund is estimated to be \$35,175 (\$10,175 + \$25,000).
- The recurring increase in state revenue to the Department of Revenue is \$1,303.
- The recurring increase in state revenue to the Highway Fund is \$4,200.
- The net recurring increase in local revenue is estimated to be \$227,220 (\$264,554 - \$37,836 + \$6,600 - \$64,395 + \$58,297).

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, appearing to read "Lucian D. Geise". The signature is fluid and cursive, with the first name "Lucian" written in a larger, more prominent script than the last name "Geise".

Lucian D. Geise, Executive Director

/cce